

**ABAG COMP SHARED RISK POOL (SHARP)  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED  
JUNE 30, 2008**

**ABAG COMP SHARED RISK POOL (SHARP)  
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**For the Year Ended June 30, 2008**

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## **MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

September 26, 2008

To the Board of Directors of the  
ABAG Comp Shared Risk Pool (SHARP)  
Oakland, California

In planning and performing our audit of the financial statements of the ABAG Comp Shared Risk Pool (SHARP) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered SHARP's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SHARP's internal control. Accordingly, we do not express an opinion on the effectiveness of SHARP's internal control. As SHARP's administration and the majority of its internal controls are provided by the Association of Bay Area Government (the Association) staff we are repeating comments made to the Association's Executive Board as part of our audit of the Association in this Memorandum to inform you of relevant issues that pertain to internal controls provided by the Association.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no matters that we consider to be material weaknesses, however, we identified certain deficiencies in internal control that we consider to be significant deficiencies that are included on the Schedule of Significant Deficiencies

The written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

**ABAG COMP SHARED RISK POOL (SHARP)  
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2008-01 – Accounting Oversight & Review**

The Association's former Assistant Finance Director left the Association's employment in fiscal 2007-08 and has not yet been replaced. This position was vacant during the period under audit and provides key oversight and controls over the accounting function. The absence of this position raises the potential that a significant error could occur and not be timely detected and corrected by existing staff.

The operations of ABAG and its affiliates are diversified, complex and very unusual which increases the need for a qualified Assistant Finance Director to oversee the accounting staff. Many of the oversight functions have been assumed by the incoming Finance Director on a temporary basis. However, both functions will be needed in the future to ensure that procedures are effective and efficient and controls do not deteriorate.

*Management Response:*

During FY 07-08, the former Finance Director announced his plan to retire after 25 years of service and the Association started recruiting for a new Finance Director. The recruitment was successful and a qualified and experienced successor took over the Finance Director position on July 2, 2008. The former Assistant Finance Director resigned from the Association in January 2008 and that position has not yet been filled to date. Recognizing the increased risk in internal control due to the departure of the Assistant Finance Director, the former Finance Director agreed to stay on to support his successor until the Assistant Finance Director position is filled. During that six-month period, the Association managed to maintain an adequate level of checking and balancing within the Finance Department, and as the results of the audit process for FY 07-08 have shown, there are no audit findings or material weaknesses to report.

**ABAG COMP SHARED RISK POOL (SHARP)**

**REQUIRED COMMUNICATIONS**

September 26, 2008

To the Board of Directors of the  
ABAG Comp Shared Risk Pool (SHARP)  
Oakland, California

We have audited the financial statements of the ABAG Comp Shared Risk Pool (SHARP) as of and for the year ended June 30, 2008 and have issued our report thereon dated September 26, 2008. Professional standards require that we advise you of the following matters relating to our audit.

**Financial Statement Audit Assurance:** Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

**Other Information Included with the Audited Financial Statements:** Pursuant to professional standards, our responsibility as auditors for other information in documents containing SHARP's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

**Accounting Policies:** Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SHARP is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008.

## **ABAG COMP SHARED RISK POOL (SHARP)**

### **REQUIRED COMMUNICATIONS**

**Unusual Transactions, Controversial or Emerging Areas:** No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008.

**Estimates:** Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are claims liabilities approximating \$17.5 million. Actual losses and the ultimate payment may vary from this estimate.

**Disagreements with Management:** For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to SHARP's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Retention Issues:** We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as SHARP's auditors.

**Difficulties:** We encountered no serious difficulties in dealing with management relating to the performance of the audit.

**Audit Adjustments:** For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the SHARP, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by SHARP that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

## **ABAG COMP SHARED RISK POOL (SHARP)**

### **REQUIRED COMMUNICATIONS**

**Uncorrected Misstatements:** Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the audit committee.

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This report is intended solely for the information and use of the Board, its committees, and management and is not intended to be and should not be used by anyone other than these specified parties.